6.1 INVESTMENTS

Investments of the General Government Sector

The Territory has a strong balance sheet and holds significant investments. Table 6.1.1 outlines the components of investments held by the General Government Sector including the Territory Banking Account (TBA), Superannuation Provision Account (SPA) and other investments.

Table 6.1.1
General Government Sector Investments

Budget 30/6/11 $'000		Est.Outcome 30/6/11 $'000	Planned 30/6/12 $'000	Var %	Planned 30/6/13 $'000	Planned 30/6/14 $'000	Planned 30/6/15 $'000
180,429	Cash and Deposits	171,419	163,028	-5	159,329	164,990	170,481
2,865,553	Investments, Loans and Placements	3,098,347	3,091,781	..	3,283,166	3,595,922	4,018,970
3,045,982	**Total Investments**	**3,269,766**	**3,254,809**	**..**	**3,442,495**	**3,760,912**	**4,189,451**
	Comprising:						
2,275,484	Superannuation Provision Account	2,300,423	2,463,724	7	2,627,404	2,790,339	2,951,603
135,845	Territory Banking Account	238,231	58,831	-75	75,940	188,240	409,628
24,817	Investments held on behalf of PTE Agencies	115,696	117,435	2	103,917	115,483	106,843
305,348	ACTIA Investments	297,029	314,121	6	338,176	365,146	415,168
118,172	Home Loan Portfolio	122,653	112,716	-8	111,880	110,856	109,723
186,316	Other GGS Agency Investments	195,734	187,982	-4	185,178	190,848	196,486
3,045,982	**Total Investments**	**3,269,766**	**3,254,809**	**..**	**3,442,495**	**3,760,912**	**4,189,451**

Return on Investments

Table 6.1.2 provides the forecast return on investments held by the General Government Sector. Further detail on investment strategies in relation to TBA and SPA investments is provided in the Significant Investment Holdings section in this chapter.

Table 6.1.2
General Government Sector Investments

Budget 30/6/11 $'000		Est.Outcome 30/6/11 $'000	Planned 30/6/12 $'000	Planned 30/6/13 $'000	Planned 30/6/14 $'000	Planned 30/6/15 $'000
132,188	Total Interest Revenue (as per GGS Statement)	159,839	153,273	161,043	166,622	180,875
64,085	*Less: Interest Revenue on Loans from PTEs*	55,428	74,498	79,092	80,153	81,517
68,103	**Total Interest Return on Investments**	**104,411**	**78,775**	**81,951**	**86,469**	**99,358**
	Interest Return on Investments					
3,045,982	Total Investments	3,269,766	3,254,809	3,442,495	3,760,912	4,189,451
1,592,654	*Less: Non-Interest Earning Investments*[1]	1,683,258	1,723,895	1,838,433	1,952,452	2,065,317
1,453,328	Total Interest Earning Investments	1,586,508	1,530,914	1,604,062	1,808,460	2,124,134
68,103	Interest Revenue	104,411	78,775	81,951	86,469	99,358
5%	**Interest Return**	**7%**	**5%**	**5%**	**5%**	**5%**
	Total Return on Investments					
3,045,982	Total Investments	3,269,766	3,254,809	3,442,495	3,760,912	4,189,451
68,103	Interest Revenue	104,411	78,775	81,951	86,469	99,358
44,322	Dividends	105,446	66,999	68,114	72,486	76,825
2,500	Other	2,976	3,557	4,159	4,426	4,691
88,941	Market Gain/Loss on Value of Investments	124,080	78,702	88,865	94,453	99,989
201,366	Total Investment Returns	336,913	228,033	243,089	257,834	280,863
7%	**Total Investment Returns**	**10%**	**7%**	**7%**	**7%**	**7%**

Note:
1. Shares, equities and property investments of Superannuation Provision Account (SPA).

2011-12 Priorities

Strategic and operational priorities to be pursued in 2011-12 include:

- managing, monitoring and reviewing, as necessary, the TBA and SPA investment portfolios in accordance with established investment policies; and
- implementing any changes arising out of the Standing Committee on Public Accounts inquiry into the exposure draft of the *Financial Management (Ethical Investment) Legislation Amendment Bill 2010.*

Management of Investments

Treasury manages surplus cash balances of the TBA and agencies and invests funds in the Australian money and capital markets in line with projected cash flow requirements and established investment policies. Treasury is also responsible for the investment portfolio comprising the total assets set aside to meet the defined benefit employer superannuation liabilities of the Territory.

Treasury uses the services of external, institutional investment managers for the management of the financial investment assets. Treasury also utilises the services of an independent external Investment Advisory Board and an investment consultant to develop and implement investment risk/return objectives, strategies, benchmarks, funds manager research, and other general investment advice.

Treasury also engages an external service provider to deliver master custodian services, including safekeeping of assets, settlement, derivatives clearing, valuation of investments, accounting reconciliations and reporting, mandate compliance reporting, performance measurement and reporting, audit, performance attribution, transition of assets and taxation equivalent reporting.

Investment Policy

Treasury's investment policies are designed to achieve an appropriate investment return within acceptable risk tolerances. Investment decisions are made on an overall risk and return analysis, incorporating many factors and considerations, such as economic, financial and identified environmental, social and corporate governance risks.

Treasury aims to implement underlying investment configurations that are efficient, low cost, and well diversified across asset classes, and individual investments, to cover the return spectrum and to minimise risk.

As an asset owner, and reflecting Treasury's prudent investment responsibilities, it is accepted that both financial and non-financial risks, specifically, environmental, social and corporate governance (ESG) issues, can impact on long-term investment value and performance.

Reflecting the relevance of ESG issues upon current investment practices, the Territory is a signatory to the Principles of Responsible Investment (PRI) in relation to the financial investment assets managed by Treasury. By signing the PRI, the Territory has committed to adopt and implement the Principles, where consistent with Treasury's prudent investment responsibilities. Treasury is working within a global movement that seeks to influence ESG issues through the combined ownership of companies.

Incorporation of ESG risks and issues in institutional investing continues to evolve and the effective implementation of all principles remains a challenge. Treasury will continue to progress implementation of the principles. Accordingly, Treasury will continue to take a considered and measured approach to the application of ESG risks and issues to the Treasury's investment practices.

Significant Investment Holdings

Territory Banking Account Investment Portfolio

The cash of the general government, not required for immediate expenditure, is currently invested in a domestic Cash Enhanced Fund, as well as a domestic Fixed Interest Fund. These investment funds comprise the cash balances from the TBA and specific ACT Government directorates and Territory Authorities.

The Cash Enhanced Fund is managed by Macquarie Investment Management Limited and the fixed interest fund is managed by Vanguard Investments Australia Limited.

The estimated nominal return for the Cash Enhanced Fund for the 2010-11 financial year is 6.45 per cent (original budget estimate 4.25 per cent). The estimated nominal return for the Fixed Interest Fund for the 2010-11 financial year is 4.9 per cent (compared to the original budget estimate of 4.25 per cent).

The budgeted full year returns (net of fees) in 2011-12 for the investment portfolios is 4.75 per cent.

Superannuation Provision Account Investment Portfolio

Funds set aside in the SPA assist the Government in meeting its long-term defined benefit employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long-term nature of the SPA projected defined benefit employer superannuation liabilities and projected cash flow requirements.

The SPA investments, currently totalling approximately $2.3 billion, are managed by a number of specialist external institutional investment managers. The investment manager arrangements currently in place for the management of SPA assets are shown in Table 6.1.3. These managers provide either active or index (passive) investment management services.

Table 6.1.3
External Fund Manager Arrangements

Asset Class	Manager	Percentage of Portfolio
Cash	Macquarie Investment Management Ltd (active)	9
Australian Fixed Interest	Vanguard Investments Australia Ltd (index)	8
International Fixed Interest	Vanguard Investments Australia Ltd (index)	9
Australian Equities	Vanguard Investments Australia Ltd (index)	7
	Perpetual Investment Management Ltd (active)	6
	Ausbil Dexia Ltd (active)	6
	Renaissance Smaller Companies Pty Ltd (active)	3
International Equities	Vanguard Investments Australia Ltd (index)	25
	Alliance Capital Australia Ltd (active)	5
	Wellington International Management Co. Pty Ltd (active)	6
Australian Property	AMP Capital Investors Ltd (active)	8
	Queensland Investment Corporation (active)	2
Australian Private Equity	Wilshire Australia Pty Ltd (active)	6

The SPA investment portfolio has a long-term investment strategy based on a strategic asset allocation (portfolio allocations to cash, fixed interest, equity and property investments) which is intended to deliver a long-term average return of CPI plus 5 per cent per annum (net of fees). The investment asset allocation modelling also assumes that there is an expectation for negative investment returns once every 4 to 5 years.

The long-term Strategic Asset Allocation (SAA), consistent with this long-term investment objective, currently equates to 70 per cent of the portfolio invested in growth assets (such as equities) and 30 per cent of the portfolio being invested in defensive assets (such as cash and fixed interest investments). For the most part of 2010-11, an asset allocation of 74 per cent growth and 26 per cent defensive was maintained.

Investment markets have performed strongly over the course of the 2010-11 financial year. The nominal return for the portfolio for 2010-11 is estimated to be in the order of 13 per cent (net of fees).

Incorporating this estimated outcome for 2010-11, the SPA portfolio will have returned an annualised net return of CPI plus 4.6 per cent over the past fifteen years, compared with the current target investment return objective of CPI plus 5 per cent (net of fees). In dollar terms, the SPA portfolio earnings equate to a net gain of approximately $259 million in 2010-11.

Table 6.1.4 illustrates the estimated asset allocation break up of the SPA investments at 30 June 2011.

Table 6.1.4
Estimated Asset Allocation

SPA Asset Allocation	Estimated Asset Allocation at 30/6/11	Long-Term Target Asset Allocation Policy
Cash	9%	0%
Australian Property	10%	10%
Australian Fixed Interest	8%	0%
Global Fixed Interest (hedged)	9%	30%
Australian Equities	22%	20%
Global Equities (hedged)	16%	15%
Global Equities (unhedged)	20%	20%
Australian Private Equity	6%	5%
Total	**100%**	**100%**

Other Significant Investment Holdings

As detailed in Table 6.1.1 Total Territory investments include the investment assets of the ACT Insurance Authority. Amounts included at Table 6.1.1 identify the increasing allocation of claims provisioning to cover future liabilities. For example, as medical malpractice and public liability claims can take a number of years to be paid, these funds can be set aside for investment purposes.

Another significant investment holding is the Home Loan Portfolio. The level of investment reflects the repayment of home loans by clients, which are used to offset and repay historical debt relating to the original financing of the Home Loan Scheme.